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Sugar

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Approved by:
Debra Henke, U.S Mission to the EU
EU-25

Prepared by:
Karin Bendz and David Leishman

Report Highlights:
EU-25 sugar production is forecast to fall to 16.4 million MT in 2006/07, a 25 percent decrease from 2005/06. As EU sugar reform measures begin to take effect, production in lesser efficient areas will discontinue.

2005/06 is expected to be the last major export year for the EU. After the WTO Panel decision, the EU is limited to 1.3 million MT of subsidized sugar exports.

As EU-25 sugar production decreases, internal EU market consumption demand will drive imports mainly from ACP and LDC countries. Demand is likely to also increase as ethanol production expands.

Includes PSD Changes: No
Includes Trade Matrix: No
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EU25 Sugar Production

The new EU single market regulations for sugar entered into effect on July 1, 2006. The reform program, announced in November 2005, is scheduled to last 9 years, through 30th September 2015. The initial 2006/07 marketing year will run for 15 months. For subsequent years, the EU marketing year will begin on October 1st and will last though September 30th. For further information, see FAS GAIN Reports, and the EC sugar reform web page.

EU25 Sugar, Centrifugal (1000 MT)						
	2004/05		2005/06		2006/07	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	Jul-04		Jul-05		Jul-06	
Beginning Stocks	4,699	4,699	5,339	5,339	4,797	5,000
Beet Sugar Prod.	21,348	21,348	21,559	21,559	16,200	16,400
Cane Sugar Prod.	300	300	288	288	275	0
TOTAL Sugar Prod.	**21,648**	**21,648**	**21,847**	**21,847**	**16,475**	**16,400**
Raw Imports	1,807	1,807	1,700	1,700	1,600	2,100
Refined Imp(Raw Val)	742	742	700	700	500	700
TOTAL Imports	**2,549**	**2,549**	**2,400**	**2,400**	**2,100**	**2,800**
TOTAL SUPPLY	**28,896**	**28,896**	**29,586**	**29,586**	**23,372**	**24,200**
Raw Exports	3	3	3	5	3	5
Refined Exp.(Raw Val)	6,025	6,025	7,200	6,995	1,559	1,495
TOTAL EXPORTS	**6,028**	**6,028**	**7,203**	**7,000**	**1,562**	**1,500**
Human Dom. Consump.	17,505	17,505	17,562	17,562	17,400	17,500
Other Disappearance	24	24	24	24	24	200
Total Disappearance	**17,529**	**17,529**	**17,586**	**17,586**	**17,424**	**17,815**
Ending Stocks	5,339	5,339	4,797	5,000	4,385	5,000
TOTAL DISTRIBUTION	**28,896**	**28,896**	**29,586**	**29,586**	**23,372**	**24,200**

In an effort to quickly stabilize the market during the critical first year, the European Commission (EC) secured an agreement with Member States for a temporary quota reduction of 2.5 million MT. The agreement was widely viewed as necessary to alleviate some of the pressures of oversupply. In light of WTO limitations on EU exports, and also recognizing that the impact of the sugar sector Restructuring Fund would be gradual, the EC calculated that a 13.6 percent reduction in the sugar quota (2.5 million MT) would essentially balance the EU sugar market without creating new stocks.

There has been some speculation on the need for further reductions in the EU sugar quota (in the range of 800,000 MT and 1.5 million MT). However, to date, there has been no decision on the matter. That possibility remains open as is stipulated under Article 19 of regulation EC 318/2006: "In order to preserve the structural balance of the market at a price level which is close to the reference price, taking into account the commitments of the Community resulting from agreements concluded in accordance with Article 300 of the Treaty, a percentage, common to all Member States, of quota sugar, quota isoglucose and quota inulin syrup may be withdrawn from the market until the beginning of the following marketing year."

EU25 sugar production is forecast to fall to 16.4 million MT in 2006/07, a 25 percent decrease from 2005/06. The incentives provided in the voluntary Restructuring Fund, together with the reductions in the EU sugar reference prices (36 percent for sugar and 39 percent for sugar beet), are expected to encourage least efficient producers to discontinue production. This will lower EU-25 sugar production. A number of sugar refineries have already closed. Ireland and Latvia have discontinued sugar production altogether. Italy has closed down 13 refineries, Poland has closed down 9, the Czech Republic 4, Spain and Germany have each closed down 3 refineries. In all, about 1.5 million MT of sugar quota will be renounced in 2006/07. Further reductions are expected in 2007/08 and 2008/09. While overall production is contracting, in some cases, more efficient sugar producers are seeking to purchase available additional quota.

Spring 2006 sugar beet plantings were reduced sharply across the EU, reflecting the effects of quota renouncement decisions and the temporary quota cuts. According to Eurostat, the planted area in the EU-25 fell 9 percent to approximately 2 million hectares. The three largest sugar beet producers, France, Germany and Poland, reduced their sown areas by 2 percent (371,000 and 412,000 hectares) and 15 percent (242,000 hectares) respectively. Hungary reduced its area by 34 percent (41,000 hectares), and Italy by about 20 percent (202,000 hectares). EU-25 sugar beet production is estimated at 121.8 million MT, a decrease of 6 percent from the previous year.

Sugar beet yields were close to historical averages. In Germany, sowing did not begin until April. A cool spring slowed the development of the crop into the early summer. High temperatures and a lack of rain were a further handicap, however growing conditions improved significantly in September with the arrival of rain and cloudy weather. Overall weather conditions were particularly favorable in Slovakia and Hungary. In Hungary, the theoretical sugar yields were among the highest on record (close to 10 MT per hectare). Sugar yields declined slightly in France after the average 12.5 MT per hectare record set in 2005. French sugar beet production is quite heterogeneous, ranging from 51.4 MT / hectare in the Yonne region to 82.1 MT / hectare in the North Pas-de-Calais region.

Trade

2005/06 is expected to be the last major export year for the EU. Sugar exports to countries outside the EU-25 stand at around 7 million MT, of which 1.9 million MT stems from the EU declassification of the quota system in the fall of 2005. After the WTO Panel Decision, the EU is permitted to subsidize 1.3 million MT of sugar exports. For 2006/07, the EC has reportedly budgeted for 0.7 million MT; however, this amount could be adjusted. Sugar export restitutions should be eliminated in 2008.

As EU-25 sugar production is likely decrease by 6 to 7 million MT, internal market consumption demand will need to be met not only by EU production, but also by imports mainly from ACP and least developed countries. In this connection, under the "Everything But Arms" initiative starting from 2009, the EU plans to open its market (duty free / quota free) for imports from the 49 poorest countries of the world.

For 2005/06, sugar imports continue to be constrained by the tariff quota (0.419 EUR/kg and 0.339 EUR/kg for unrefined sugar). With the 2006/07, import tariffs will be gradually reduced from 80 to 50 to 20 percent, and then finally eliminated for LDC's by 2009/10. The most significant increase in EU-25 sugar imports will likely occur in 2009.

Production Quotas for 2006/07

Member States	Sugar	Isoglucose	Inulin syrup
Belgium	819,812	85,694	0
Czech Republic	454,862	—	—
Denmark	420,746	—	—
Germany	3,655,456	42,360	—
Greece	317,502	15,433	—
Spain	903,843	98,845	—
France (metropolitan)	3,552,221	23,755	0
French overseas departments	480,245	—	—
Ireland	0	—	—
Italy	778,706	24,301	—
Latvia	66,505	—	—
Lithuania	103,010	—	
Hungary	401,684	164,736	—
Netherlands	864,560	10,891	0
Austria	387,326	—	—
Poland	1,671,926	32,056	—
Portugal (mainland)	34,500	11,870	—
The Azores	9,953	—	—
Slovakia	207,432	50,928	—
Slovenia	52,973	—	—
Finland	146,087	14,210	—
Sweden	325,700	—	—
United Kingdom	1,138,627	32,602	—
Total	**16,793,675**	**607,681**	**0**

Source: European Commission

Intervention

In 2005/06, the EU sugar intervention mechanism was used for the first time on 20 years. Despite decreasing EU sugar production, intervention stocks were used to absorb quantities of sugar that were previously subsidized for export. Under the current EU sugar reform plan, intervention will be phased-out over the next four years. The total quantity held by intervention agencies (available for sale on the internal market) amounts to 899,896 MT, down from the 1.3 million MT level announced in July. Currently, open tenders are for sugar stored in warehouses in Belgium, Hungary, Ireland, Italy, Poland, Slovakia, Slovenia, Spain, Sweden and the Czech Republic.

Member State	Quantities held by the intervention agency and available for the sale on the internal market (tons)
Belgium	28,648
Czech Republic	34,157
Spain	77,334
Ireland	12,000
Italy	494,012
Hungary	141,943
Poland	13,118
Slovenia	5,647
Slovakia	34,000
Sweden	59,038
Total	**899,896**

Fines for sugar stockpiles

The European Commission has set fines totaling around 57 million Euro for Estonia, Cyprus, Latvia, Slovakia and Malta for their failure to prevent the build-up of stocks of sugar prior to their EU accession in May 2004. After noting the presence of excess stocks, the Commission set a March 31, 2006 deadline to reduce the excess stocks. However, Cyprus, Latvia and Slovakia made only minor attempts to resolve the situation, cutting stockpiles by a mere 190 tons, 1,743 tons and 1,797 tons respectively. For the remaining sugar surplus, each country is now charged an amount equal to the quantity of sugar not eliminated, multiplied by 499.5 Euro per ton. This sum represents the highest export refund amount for white sugar during the period May 1, 2004 to November 30, 2005. As the amounts that have to be paid are regarded as “own resources” of the EU budget, EU Member States concerned will be permitted to retain 25 percent of these charges. The amounts to be paid will be taken into account in the calculation of production levies for the 2005/06 marketing year. As a result, the levies paid by sugar and beet producers in the EU will be reduced, thus partly compensating them for difficulties caused by the market

Sugar Beets for fuel ethanol production

Bioethanol represents close to 20 percent of the biofuels used in transport in the EU-25. It is mainly produced by fermentation from crops rich in sugar and starches. The most common crops for ethanol production in the EU are cereal crops and sugar beets. The main feedstock in the EU used to be molasses from sugar production. As production and demand for ethanol increase, cereals (mainly wheat) are becoming the main feedstock. Under existing contracts, there appears to be a shortage of molasses on the EU market. It is possible that the EU sugar reform could change this situation, and more sugar / molasses will become available for bioethanol production.

Growing demand for biofuels provides a timely opportunity for sugar beet growers to consider ethanol as an alternative to out-of-quota sugar production. Sugar beets used for bioethanol do not count in the quota system. Currently, biofuel development is becoming more economically viable thanks to tax relief programs authorized by the EU directive. However, given current ethanol prices, sugar beet for ethanol production appears to be viable only in the most efficient production areas (i.e. Belgium, France and Germany).

Starting in 2006, sugar beet production for energy can benefit the so-called Carbon Credit premium, which is set at €45 per hectare. Sugar beet farmers can also cultivate sugar beets on set-aside land without jeopardizing the single farm premium payment - as long as the farmers have a contract with a buyer that guarantees that the crop will only be used for energy production.

France, the second largest producer of bioethanol in the EU-25 after Spain, is expected to increase production to 305,000 MT in 2006, up from 207,000 MT in 2005. This is still less than the anticipated production capacity of 504,000 MT. In France, sugar beet is the most important feedstock for ethanol production. However, use of cereals, mainly wheat, is expected to increase in the future.

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